A565D -2A

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 28B
July 20, 1984

IN THIS ISSUE:

Steel Wins Another Round in Fight for Import Curbs 1

Japanese Economy Gathering Momentum 4

Health Bill Produces Diet Deadlock 7

Update on Sino-Japanese Relations 8

Technology Transfer Team in Japan 10

Statistical Supplement 13

Steel Wins Another Round in Fight for Import Curbs

Bethlehem Steel Corp.'s gamble that it could win broad import protection for American steel mills by going the trade-complaint route continues to pay dividends. On July 11, the International Trade Commission (ITC) recommended that President Reagan use his authority under Section 201 of the 1974 Trade Act to impose quotas, extra duties or tariff quotas for the next five years on roughly 70 percent of the steel entering the United States. The three commissioners voting for the complex relief package suggested, however, that protection be conditional on an industry commitment to improve competitiveness through steps like plant modernization, changes in management practices and labor concessions. The ITC's chairwoman and vice chairwoman, while supporting the thrust of the linkage concept, broke ranks with their colleagues on the remedy issue, just as they earlier did on the question of whether expanding imports were a substantial cause of the U.S. steel industry's problems (see JEI Report No. 24B, June 22, 1984). Since the industry's loss of sales and jobs was due chiefly to factors other than increasing imports, they argued, protection was not justified.

Japanese Economy Gathering Momentum

Paced by the strong growth of exports and capital spending, the Japanese economy has surpassed both government and private performance predictions for the first part of 1984. Since posting a strong 7.4 percent real growth rate in the first quarter of calendar 1984, the economy has continued to build up strength, though some weak spots persist. The bullish atmosphere is expressed by hikes in the growth forecasts by private financial observers and hints by the government that it may follow suit.

The strong first quarter performance pushed the economy's real growth for fiscal year 1983 (April 1, 1983-March 31, 1984) slightly above the government's forecast 3.4 percent (see JEI Report No. 25B, June 29, 1984). The economy moved out of the doldrums by latching on to the dynamic U.S. recovery. Japan recorded a record $13 billion trade surplus in the second half of calendar year 1983, and this strength shows no sign of abating.

In fact, in the first half of 1984, the country beat the 1983 trade surplus record by half a billion dollars. According to the Ministry of Finance, brisk exports of electronics and automobiles to the United States were the foundation for the new record. Imports overall rose 11.5 percent in the January-June period, topping $69 billion (c.i.f. basis), with strong increases in purchases of manufactured goods (up 24.4 percent) and petroleum products. Exports, however, jumped 18.9 percent to $82.5 billion (f.o.b. basis).

January-June 1984 trade with the United States recorded gains in both imports (up 13.6 percent to $13.4 billion) and exports (leaping 47.6 percent to $27.9 billion). The same situation characterized Japan's trade with the European Community (EC). Imports from the EC rose 17 percent to $4.6 billion, with a strong 14.2 percent gain in the manufactured goods category. The growth of exports to the EC was half this rate -- 8.6 percent to $9.7 billion, coming from solid gains in sales of office equipment, other electronic equipment and automobiles.

Clearly the external sector remains important to the Japanese economy, but domestic factors are increasingly responsible for generating growth. At the root of this trend is the strong expansion of corporate profits. Aided by low wage increases and steady price levels, business profits are projected to grow at double-digit rates this fiscal year. According to estimates by four major securities firms, ordinary profits will decline slightly in the first half of FY 1984 because of a seasonal slowdown in the oil and construction industries. If electric utilities and oil refiners are excluded from the profit projections, first half growth figures become positive. For the October 1984-March 1985 period, however, growth predictions turn upward even if oil and power companies are included (see accompanying table).

Strong profits are feeding into two channels that will make the major sources of economic growth internal. The first channel is increased capital investment. Optimism among business leaders is high, according to government and private surveys, and this is causing upward revisions in capital budgets. Not only are firms replacing aging equipment, but significant capacity expansion is being planned for the first time since the recent recession. Orders received by eight major machine tool makers have topped Y10 billion

($41.7 million) for the last three months, almost 40 percent greater than in the same period last year. High-technology companies seem to be leading the charge: NEC Corp. plans to up its FY 1984 plant and equipment outlays from Y110 billion ($458 million) to Y125 billion ($521 million), and Matsushita Electronics Corp. will spend Y110 billion ($458 million), Y32 billion ($133 million) more than originally announced. Other industries are following suit. Toyota Motor Corp., for example, has raised its investment program 25 percent to Y200 billion ($833 million), the first sizable increase in several years.

The upturn in investment is not only characteristic of large firms. Capital plans of small- and medium-sized enterprises show signs of growth after several periods of declines. According to a Bank of Japan survey, this group of companies, constituting by far the majority of businesses in Japan, now intend to increase their expenditures for new plant and equipment by 8.7 percent in FY 1984.

Unfortunately, this bullish investment mood does not extend to the basic materials sector. Steel and petrochemical firms are hesitant to sink more money into lines facing overcapacity at home and potentially stiff competition from abroad. Because of this dichotomy in investment attitudes, a return to the high growth levels seen in earlier years is unlikely.

The second channel for a revival of domestically generated growth will develop more slowly, but perhaps be of more lasting importance. High corporate profits will inflate workers' semi-annual bonuses, which can amount to up to one-third of an employee's annual income. This is particularly important given the restrained wage increases agreed to during this year's spring wage offensive (see JEI Report No. 24B, June 22, 1984). Current estimates for this summer's bonuses are running at levels 5 percent above last year's, boding well for private consumption -- the source of half of Japan's gross domestic product. While department store sales rose only 2.1 percent in May because of unfavorable weather conditions, retailers are optimistic that things will pick up when the bonuses are distributed. Consumer spending has been reviving over the last nine months, and if businesses' optimism can infect buyers, the economy should be able to sustain solid growth for a number of quarters.

All these factors have led major financial institutions to raise their FY 1984 growth forecasts (see following table). Predictions for real growth now range between 4.8 percent and 5.4 percent, with strong performances by capital investment and the external sector. (For details on earlier estimates, see JEI Report No. 3B, January 20, 1984.) Housing growth remains problematic, with projections varying from 2.9 percent to 8 percent. General agreement exists, however, that rates of inflation will be slightly accelerated. Also significant is a predicted rise of 2 percent to 8 percent in the value of the yen against the dollar, but current-account balances are seen as running above $30 billion by nearly all forecasters.

Weak spots still mar the economy's recovery -- the housing industry continues to sputter along, inventories are only slowly being rebuilt, and business failures remain at very high levels. However, based on the relatively weak yen, the external sector will continue to expand, especially if the U.S. economy continues to perk along. If domestic sales predictions by business are fulfilled and consumers open their pocketbooks, the trend toward greater

Corporate Profit Growth Predictions

(Profit growth rate excluding power and oil companies in parentheses)

Forecaster	FY 1983	FY 1984	
		First Half	Entire Year
Nomura Research Institute	47.4% (34.2%)	-6.9% (5.4%)	22.9% (20.9%)
Daiwa Securities Research Institute	46.4 (33.6)	-5.8 (7.0)	30.5 (21.9)
Nikko Research Center	42.3 (32.0)	-5.5 (1.6)	13.6 (16.5)
Yamaichi Research Institute of Securities & Economics	47.3 (33.3)	-6.0 (6.8)	20.7 (20.2)

Revised FY 1984 Forecasts for the Japanese Economy

(percentage change)

Forecaster	Real GNP Growth	Real Private Consumption	Real Capital Investment	Housing Investment	Consumer Price Increase	Current Account Balance*	Yen/$ Exchange Rate
Japan Economic Research Center	5.3%	4.2%	8.8%	5.2%	2.8%	$35.7	Y222
Mitsubishi Research Institute	5.3	3.2	9.1	2.9	3.5	35.9	236
Nomura Research Institute	4.8	3.4	7.6	3.5	2.6	34.9	230
Daiwa Securities Research Institute	5.0	3.9	7.9	8.0	3.0	29.9	220
Yamaichi Research Institute of Securities & Economics	4.9	3.3	7.2	2.9	2.7	32.3	226
Nikko Research Center	5.4	3.6	8.1	5.4	2.8	34.7	230
Toyo Trust & Banking Co.	5.0	4.2	7.5	4.5	3.0	31.7	n.a.
Economic Planning Agency (EPA) (12/83 estimate)	4.1	4.1	5.1	5.2	2.8	23.0	234

* in billions of dollars

capital expenditures and private consumption will convert the economy's motor from an external one to an internal one.

Jon Choy

Health Bill Produces Diet Deadlock

Proposed legislation in the Diet, Japan's parliament, to reform existing health insurance laws has produced a legislative deadlock that may force extension of the current session. Disputes over the bill have also delayed other major legislative items, including several government reorganization measures that have direct impact on U.S.-Japan trade relations.

The health insurance measure would require those covered to begin paying 10 percent of total medical expenses beginning in fiscal year 1985 and 20 percent in FY 1986 (see JEI Report No. 22B, June 6, 1984). Fierce criticism by the major opposition parties as well as qualms among some members of the Liberal Democratic Party (LDP) forced the Nakasone government to consider alternatives, but an acceptable resolution has not been reached. An attempt to introduce a cloture vote on lower house debate on the bill on July 5 was thwarted by shouting sessions by opposition party members on the Diet floor, further delaying a vote.

The bill has also incurred the opposition of many in the Japanese medical profession. They contend that increasing patients' shares of costs will ultimately reduce the ability to afford medical care.

Japan maintains a comprehensive medical insurance system that provides coverage to most of the working population virtually free of charge. The Nakasone government has made medical expenses a target of its budget control efforts during the last year. Although the absolute costs of the system are small in comparison with other budget items, they have been accelerating in recent years. With Japan's population aging rapidly, the Nakasone government may be more concerned at this point with establishing the principle of individuals covering an increasing share of their medical expenses than with reducing budget costs as much.

The depth of emotion surrounding this issue in Japan, however, is comparable to the sensitivity of debates about the revision of the social security system in the United States. It is difficult for any party to gain politically from the proposed legislation. Further, the emphasis placed on the bill by the LDP has led to its becoming a measure of Prime Minister Nakasone's leadership in the Diet and, by implication, his ability to secure re-election as president of the party later in the year. Finally, the furor in the Diet has delayed consideration of other significant measures that have drawn sharp attention from policymakers in Washington, including administrative reform bills affecting Nippon Telegraph and Telephone Public Corp. (NTT) and the Japan Tobacco and Salt Public Corp. (JTS).

The current session of the Diet was extended last spring until August 8. Failure to obtain relatively prompt action on the insurance bill

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-May 1983	January-May 1984	March 1984	April 1984	May 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$10,065	$14,491*	$ 4,229*	$ 3,902*	$ 2,944*
Exports (f.o.b.)	137,663	145,468	56,856	66,986*	15,423*	14,284*	14,087*
Imports (f.o.b.)	119,584	114,014	46,791	52,495*	11,194*	10,382*	11,143*
Current Account Balance	6,850	20,799	5,310	10,236*	3,367*	3,524*	1,861*
Long-Term Capital (net)	-14,969	-17,700	-4,649	-14,084*	-1,968*	-4,423*	-3,724*
Overall Balance	-4,971	5,177	685	-6,078	-533	-1,785	-1,223
International Reserves (end of period)	23,262	24,496	24,484	25,323	25,109	25,321	25,323
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	5,570	9,507*	3,200	3,109	1,854*
Exports (f.o.b.)	138,831	146,928	57,118	67,744*	15,569	14,449	14,282*
Cars	18,015	19,535	8,142	9,115*	1,449	2,305	2,021*
Steel	15,645	12,843	4,980	5,348*	1,267	1,048	1,100*
Imports (c.i.f.)	131,931	126,393	51,548	58,237*	12,370	11,340	12,427*
Crude Oil	46,274	40,063	17,568	17,600*	4,053	3,191	3,554*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	5,662	11,494*	2,417	3,013	2,658*
Exports (f.o.b.)	36,330	42,829	15,256	22,723*	4,691	5,141	5,077*
Imports (c.i.f.)	24,179	24,648	9,594	11,229*	2,274	2,128	2,420*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y224.70	Y226.00	Y231.50
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-7,724	-12,980	-2,730	-2,766	-2,903
Exports (f.a.s.)	20,966	21,894	8,105	9,554	2,028	1,872	1,987
Industrial Supplies	9,173	8,734	3,474	3,642	775	691	726
Food and Feed	4,971	5,555	1,991	2,513	513	527	509
Capital Goods	4,434	5,116	1,713	2,324	510	449	539
Consumer Goods	1,356	1,394	565	580	127	110	115
Imports (Customs)	37,744	41,183	15,829	22,533	4,758	4,638	4,889
Automotive Products	12,890	14,919	5,872	7,486	1,571	1,372	1,907
Industrial Supplies	6,795	5,391	2,115	2,989	602	645	565
Consumer Goods	7,842	8,296	3,097	4,322	944	962	843
Capital Goods	9,530	11,896	4,477	7,400	1,576	1,594	1,511

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-April 1983	January-April 1984	February 1984	March 1984	April 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.6%	7.9%	7.8%	8.4%	7.7%
Industrial Production	0.3%	3.6%	-0.5%	11.0%	13.3%	10.3%	11.0%
Manufacturing Operating Rate	-2.9%	1.6%	-2.6%	9.2%	12.3%	7.5%	9.4%
Number of Bankruptcies	-2.8%	11.9%	4.4%	18.5%	22.8%	15.5%	17.4%
Residential Construction Starts	-0.5%	-0.8%	2.0%	2.6%*	2.8%	5.6%	10.9%*
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.65	0.64	0.64
Nominal Wages	4.5%	3.5%	5.2%	4.4%	3.8%	5.2%	5.4%
Labor Productivity	1.0%	4.6%	-0.7.**	10.4%**	10.2%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-1.1%	-1.2%	-1.3%	-1.3%	-0.7%
Consumer Prices	2.7%	1.9%	2.0%	2.4%	2.9%	2.5%	2.4%
Yen-Based Export Prices	3.9%	-6.0%	-5.5%	-1.3%	-0.2%	-1.9%	-2.0%
Yen-Based Import Prices	7.9%	-7.8%	-2.0%	-6.4%	-6.8%	-6.4%	-5.7%

*Preliminary
**Through February of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, June 29, 1984.

July 27, 1984/A Not Filmed